



PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO
607 North 8th Street
BOISE, IDAHO 83702

MINUTES
OF
MEETING OF RETIREMENT BOARD

The Board of the Public Employee Retirement System of Idaho met at the PERSI Administration Building, 607 North Eighth Street in Boise, Idaho at 8:30 a.m., January 28, 2003. The following members were present:

Jody B. Olson
Susan K. Simmons
Pamela I. Ahrens
J. Kirk Sullivan
Dennis L. Johnson

Executive Director Alan H. Winkle, Deputy Attorney General Brian Kane, Financial Officer James Monroe, Chief Investment Officer Robert Maynard, and Management Assistant Joanne C. Ax were also in attendance. Other persons attending portions of the meeting were:

Rod MacKinnon
Bill Palumbo
Drew Black
Brian McGrath
Dennis Fitzpatrick
Branden Fitzpatrick
Chris Growney
Doug Bates
Mike Boren
Brent Nye
Matt Freeman
Charlie Brown
Doug Dorn
Ted Kunz

Mountain Pacific Investment Advisors
Mountain Pacific Investment Advisors
DB Fitzpatrick & Co.
DB Fitzpatrick & Co
DB Fitzpatrick & Co
DB Fitzpatrick & Co
Clearwater Advisors
Clearwater Advisors
Clearwater Advisors
Boise School District
LSO-BPA
REAI
R.V. Kuhns & Assoc.
Claremont Partners

Robert Schmidt
Jim Coleman
Cecile McMonigle
Richelle Sugiyama
John R. Doner

Milliman USA
PERC Retired Teachers
PERSI
PERSI
PERSI

OLD BUSINESS

Approval of the Minutes: By motion duly made by Trustee Sullivan and seconded by Trustee Ahrens, the Board unanimously approved the minutes of the December 17, 2002, regular meeting of the Retirement Board as submitted.

PORTFOLIO

Monthly Portfolio Update Mr. Maynard discussed his investment report dated January 28, 2003, which he had updated from the one previously furnished to the Board. In the report and in his discussion, Mr. Maynard noted the following:

Since the last Board meeting, the fund has lost 3%. After a large run-up in late December and early January, moderately pessimistic earnings forecasts (and refusal to give forecasts) from some companies, and less than exciting economic reports have caused a retreat to earlier levels. War jitters also seem to move the markets recently.

All managers are either within their expected characteristics or have reasonable explanations for slight deviations. All managers are also performing as expected vs. their respective benchmarks.

The TIPS account has the best absolute performance, and Zesiger and Genesis have the best relative performance for the fiscal year to date. We have TIPS in our portfolio to protect the fund against inflation; however, it has added to our returns in recent markets.

The portfolio as a whole continues to exhibit its primarily defensive character that it developed late last year. This means that if the market turns around quickly, our relative performance will lag for a while. On the other hand, an encouraging sign is that during a rise of over 5% since October 14th of last

year, the fund kept even on its overall performance, and also managed to outperform in the recent severe drop over the past week.

Mr. Maynard's report stated the current value of the fund as of January 28, 2003 was \$5,862,700,772. The fiscal year-to-date return percentage is negative 7.4% and the month-to-date return was a negative 2.2%.

In response to a question from the Chair, Mr. Maynard said cash, including that held by individual managers, is managed by Clearwater Advisors. The Clearwater account has added over a quarter million dollars to the fund. Mr. Maynard's report provided a breakdown of cash holdings by manager. While he is not happy with the markets, he is happy with our portfolio and allocation weightings, saying nothing is seriously wrong with PERSI's portfolio.

Mr. Maynard will have Mario Giannini attend the March meeting to provide an update on Alternative Investments.

Manager Comments: The Chairman invited managers who were present to comment on the markets and the economy. The period of volatility is expected to continue as the possibility of war continues and corporate governance and geo politics remain factors. Recovery momentum seems to fluctuate from day to day, but a 4% growth by the end of 2003 was predicted. Some expectation of a slow rise in interest rates in the next few months was also mentioned. Until corporations start buying technology again, the markets just move sideways.

FISCAL:

Update and Expense Reports: Financial Officer James Monroe told the Board that the Annual Report is now available on the website and also in printed format. He reviewed a report from the Legislative Budget Book showing PERSI's budget request for FY 2004 and the Governor's recommendations for the year that begins next July 1st. The budget hearing is set for January 29. He also told the Board that we are rolling out an upgrade to EASYPAY, a system for transmitting contributions to PERSI. The Request for Proposals for our annual audit will be released in February after Trustee Simmons' review. Responses are expected in March.

Mr. Monroe then reviewed the Out of State travel report. Chairman Olson said with our significant global allocation, he encourages each Trustee to attend an overseas conference at least once every two years. Mr. Monroe also reviewed the Administrative and Portfolio expense reports for the month

ended December 31, 2002, which had previously been furnished to the Board. He explained that some portfolio fees had been billed to PERSI late; therefore, the reported fees are lower than expected.

EXECUTIVE DIRECTOR

New Employer: By motion duly made by Trustee Johnson, seconded by Trustee Sullivan and unanimously approved, the Board welcomed The Donnelly Rural Fire Protection Association, Inc. as a new PERSI employer effective November 1, 2002.

Hearing Officer Appointment: By motion duly made by Trustee Ahrens, seconded by Trustee Simmons and unanimously approved, the Board authorized the Executive Director to appoint a hearing officer in the matter of Barbara Kramer to conduct a contested case hearing and to issue a recommended decision.

Status Update: Executive Director Winkle reviewed the summary of PERSI projects report that had previously been provided to the Board. He told the Board that PERSI is not bringing any legislation this year. We are assisting in an effort by the Sheriff's Association and Sen. Cameron to change the provisions of the Police Officer Death Benefit for officers killed in the line of duty to be administered within the PERSI plan for PERSI employers. It is the intent of the legislation that PERSI police officer and firefighter members will receive the \$100,000 death benefit, currently provided by Idaho Code §67-2028, from within the plan. The actuary has estimated the addition of this benefit to the PERSI plan will increase the employer contribution rate by 0.10% of pay applied to the police officer and firefighter salary. The benefit will be patterned after the federal "Fallen Hero's" benefit. Trustee Johnson asked whether this legislation includes protection in the event of a catastrophe. There was further discussion of this issue; Mr. Winkle said we are self insuring against such disasters and would have to raise future rates if it did occur. Mr. Johnson said it has been his experience that raising premiums after the fact is difficult.

The successful vendor for the actuarial review is Gabriel, Roeder, Smith and Co.(GRS) who has handled this audit the past two times. A draft result is expected the latter part of March with a presentation to the Board scheduled for the April meeting.

Clearwater Research is the successful bidder for our member survey project. At the February or March meeting, staff and the consultant will make a presentation to the Board to get input and comments on the questions and process.

We are moving the portfolio department into the third-floor space formerly occupied by outside tenants. Their old offices will be used for

portfolio reference files, a workroom and space for visiting portfolio officers and consultants.

FUTURE BOARD MEETINGS

Tuesday, February 25, 2003, 8:30 a.m., Boise - PERSI office

Tuesday, March 18, 2003, 8:30 a.m., Boise - PERSI office

Tuesday, April 22, 2003, 8:30 a.m., Boise - PERSI office

Tuesday, May 20, 2003, 8:30 a.m., Boise - PERSI office

Adjournment: There being no further business to conduct, by motion duly made by Trustee Johnson, seconded by Trustee Simmons and unanimously approved, the meeting was adjourned at 9:40 a.m.

Jody B. Olson
Chairman

Alan H. Winkle
Executive Director